

VZCZCXYZ0022
PP RUEHWEB

DE RUEHDG #0515/01 1201724
ZNR UUUUU ZZH
P 301724Z APR 09
FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC PRIORITY 2696
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHBO/AMEMBASSY BOGOTA PRIORITY 1725
RUEHCV/AMEMBASSY CARACAS PRIORITY 0992
RUEHLP/AMEMBASSY LA PAZ APR 0556
RUEHPU/AMEMBASSY PORT AU PRINCE PRIORITY 4987

UNCLAS SANTO DOMINGO 000515

SENSITIVE
SIPDIS

STATE FOR WHA/CAR
LA PAZ FOR A/DCM C LAMBERT

E.O. 12958: N/A
TAGS: [ECON](#) [ENRG](#) [EINV](#) [DR](#)
SUBJECT: DARK DOMINICAN NIGHTS LOOM AS DEBT TO POWER
GENERATORS GROWS

REF: A. SANTO DOMINGO 205
[1B.](#) SECRETARY 1

Summary

[¶11.](#) (U) Despite optimism earlier this year that the government would be able to settle its debt to the private electricity generators, the government's failure to pay 2009 invoices has instead compounded last year's deficit and led to increased blackouts in recent weeks. A corruption scandal in the Blackout Reduction Program (PRA), meanwhile, led the Dominican Corporation of State-Owned Electricity Companies (CDEEE) to suspend the program director without pay while it investigates the charges of nepotism and graft. Responding to the increased instability owing to the growing debt as well as the corruption scandal, business leaders called for the dismissal of powerful CDEEE Executive Vice President Radhames Segura. End Summary.

GoDR debt to sector surpasses USD 500 million

[¶12.](#) (U) Despite signs at the beginning of this year that low fuel prices would enable the Dominican government to settle its debt with the privately owned electricity generation companies in the country, the government has failed to make full payments on regular monthly invoices and has fallen even further in debt with the generators. The GoDR now owes over USD 500 million, between overdue payments and the "frozen" debt from prior to 2005, to the private generators. Payments on the frozen debt were scheduled to begin this year.

[¶13.](#) (SBU) U.S.-owned AES Dominicana, the country's largest producer, is owed USD 329 million, the company's president told Charge Bullen April 27, equivalent to 11 months of revenue. He said that while last year, the sector financed the government's shortfall, that will not be the case in [¶2009](#). While he said his company had no intention of breaking its contractual obligation to generate electricity whenever fuel was available, he may have to cancel the June natural gas deliveries) as he did last year) if the government fails to pay the invoices. With shorter fuel reserves, AES would cut back production at its power plants. Presently, the 300 MW AES Andres plant is offline for regularly scheduled maintenance and will remain inoperable until May [¶21](#). The company's 240 MW Itabo plant, which runs on coal, continues to provide the grid. Nonetheless, electricity supply has been dramatically constrained in recent days. On

April 26, De La Rosa said that just more than 60 percent of the true electricity demand was supplied. The official figures, however, show that number closer to 80 percent. More importantly, though, blackouts are growing in both their frequency and duration and unless the GoDR begins catching up on back payments, this trend will become severe. In Los Mameyes, just East of Santo Domingo, residents burned tires near an Ede Este distribution company office on April 22 to protest that they receive only two hours of electricity per day.

¶4. (U) The government has recognized the problem but says it lacks the funds to pay the generators. While lower fuel prices reduce costs for the government, they also result in substantially lower financing from the Petrocaribe agreement with Venezuela. The CDEEE touted an agreement with generators in early February to pay down USD 250 million of its debt through a government bond issue (reftel A). But the generators conditioned their acceptance of the instruments to Congress passing an amendment to allow bondholders to use matured bonds to pay government obligations such as taxes. With Congress focused on a constitutional reform, however, they have taken no action regarding the bond amendment. Segura and Finance Minister Vicente Bengoa also announced plans to lead a delegation to Washington to seek USD 300 million in loans from multilateral lending organizations, primarily the Inter-American Development Bank and the World Bank.

¶5. (SBU) De La Rosa told the Charge that he doubted a multilateral institution could act quickly enough to provide financing to the sector in time to prevent a serious electricity crisis. He also expressed frustration with the

lack of real reform in the sector. He said that while he hopes the loan is granted, he is worried about the sector's long-term sustainability. While Segura has described the decision to turn to the multilateral institutions for assistance as a possible solution to the crisis, he and the rest of the Fernandez administration's energy team have done next to nothing to prevent this situation from reoccurring. A push by private-sector participants in the sector to float the consumer tariff for electricity, replacing the subsidized tariff with a focalized subsidy for poor consumers, appears to lack political support. The highly publicized February 20 implementation of the law criminalizing electricity theft has yet to show results (even though Ede Este reported five large-scale alleged thieves to the Electricity Superintendent in late February).

CDEEE suspends program director for corruption

¶6. (U) A corruption scandal revealed in an in depth television report by journalist Nuria Piera showed significant evidence that PRA Director General Marcos Lara had utilized his position to reward his family, friends and followers. According to the report, Lara misused government construction funds intended for a PRA facility to renovate the headquarters of his religiously motivated political movement. Furthermore, Piera identified on the PRA payroll some 15 members of Lara's family and another 30 parishioners of the evangelical church of which Lara is the pastor. When Piera attempted to contact one of these employees, the receptionist told her that "nobody who works here knows him".

Within 48 hours of Piera's report, Segura made a public announcement suspending Lara and eight of his subordinates without pay. The PRA is a government agency under the purview of the CDEEE.

¶7. (U) The report featured an in-depth interview with Lara during which the GoDR official acknowledged the material facts behind the charges of nepotism but denied that he had misappropriated government materials or employees for use at the headquarters of his political movement, the Christian Renovation Movement (MCR). He recognized that he has hired many friends and relatives, saying he hired them so that he

would have people he trusted at his side. He also said that it was his right (and even his pious responsibility) to curry favor to his close associates. "Anyone in an administrative position should use that position to help his family," Lara said. He vehemently denied that he used PRA funds and materials to renovate the MCR headquarters. He told Piera that while he used the same contractor for both the MCR and PRA projects, the accounts were paid separately. Piera interviewed some of the workers at the MCR project, however, and they reported receiving their paychecks solely from the PRA. She also showed invoices indicating that materials paid for by the PRA were delivered to the MCR headquarters.

Industrialists call for Segura's dismissal

18. (U) On April 26, the directors of the Herrera Association Industrial Companies (AEIH) and the Federal of Industrial Associations (FAI) sent an open letter to President Fernandez calling for the dismissal of CDEEE Executive Vice President Segura and other members of the so-called Energy Cabinet. Noting the PRA corruption scandal and the general management failures in the crisis-prone sector, the industrialists complained that the politicization and profiteering in the sector have prevented it from stabilizing. "We are convinced that the problems detected in the PRA are just a sampling of what may be occurring in the higher offices" of the CDEEE, the letter stated. A few days prior, Celso Marranzini, the president of the National Private Business Council called for a top-to-bottom review of CDEEE operations in the wake of the PRA scandal.

Government looks to become full owner of Ede Este

19. (SBU) After years of disputes and three separate international arbitration filings, the tumultuous relationship between the U.S.-based Trust Company of the West

and the Dominican Government, co-owners of Ede Este, may be coming to an end. On April 17, President Fernandez told Secretary Clinton that Ede Este would eventually become state-owned (Reftel B). Rumors have also grown in the Dominican electricity sector that the GoDR has entered negotiations with TCW to acquire its stake in the company. Officials at Ede Este said they were unable to officially confirm these accounts and that TCW had not told Ede Este management about the apparent negotiations.

Comment

110. (SBU) The GoDR continues to handle its burgeoning debt to the electricity generators with much rhetoric and only half-filled promises. Despite the CDEEE's press outreach efforts to announce the bonds with plenty of fanfare, the government has not pushed Congress to consider the amendment that would make the bonds acceptable. Likewise, the much-touted implementation of the electricity theft law is unconvincing without any arrests. In the meantime, months of heavy blackouts seem imminent as a cash-strapped sector is unwilling to finance the government's overstretched and poorly guided subsidy. While the possibility of international loans offer medium-term relief for the situation, they do little to resolve the immediate problems or the long-term reforms that this dysfunctional sector requires. End Comment.

BULLEN